



European Commission

INVESTMENT GAPS IN EU DEFENCE

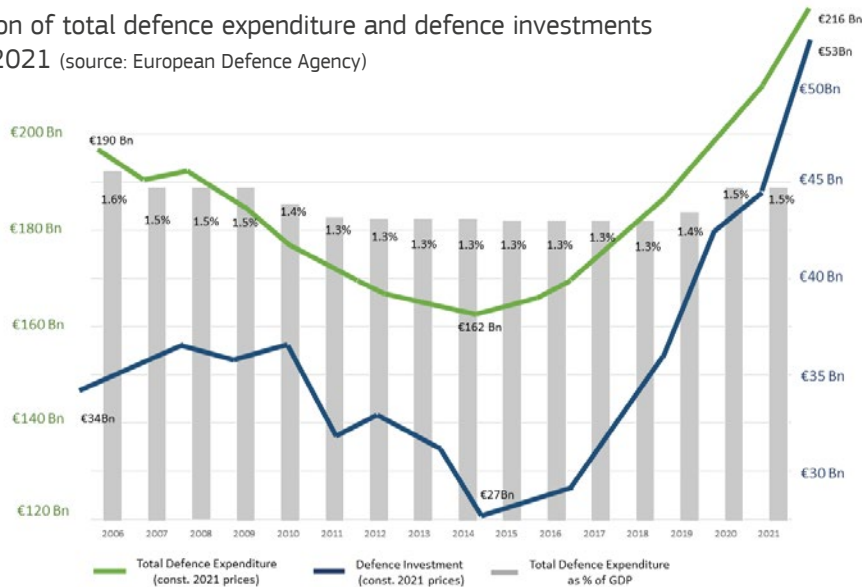
#EUDefenceIndustry #EUDefence

18 May, 2022

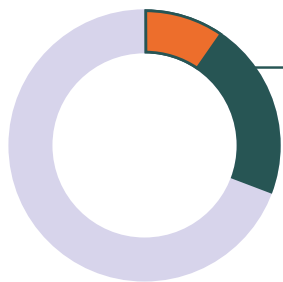


INSUFFICIENT DEFENCE EXPENDITURE

Evolution of total defence expenditure and defence investments 2006-2021 (source: European Defence Agency)



AMOUNT SPENT COLLABORATIVELY AT EU AND MEMBER STATES' LEVEL



11% spent collaboratively of the 35% benchmark

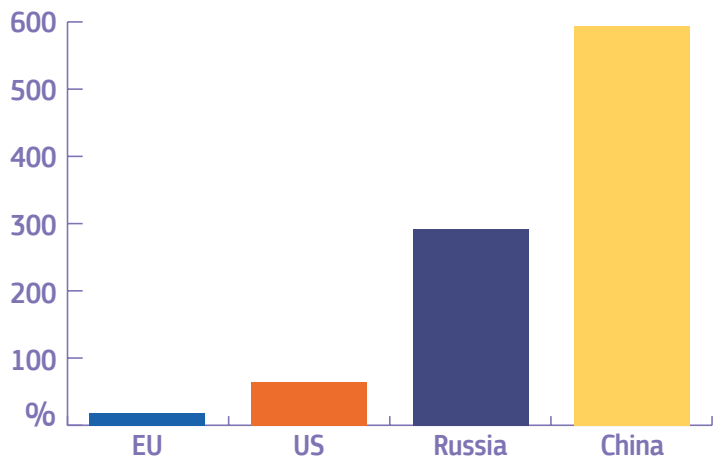
Despite the increased European defence expenditure in 2020, there was a new low point of only 11%¹ of investments spent collaboratively – far below the 35% benchmark agreed by Member States in the EDA framework and set within the PESCO – as opposed to 89% spent on a national basis.

¹ Data provided by 11 Member States.

² SIPRI

INTERNATIONAL COMPARISON

Over the past decade, the US, Russia and China significantly increased their defence budgets.²





INDUSTRIAL GAPS

European Defence companies are still structured mainly along national borders, mirroring the structure of the demand. This market structure, combined with low investment spending, resulted into a number of national players producing small volumes.



CAPABILITIES GAPS

SHORT-TERM GAPS



Replenish stockpiles



Replace Soviet-era equipment



Reinforce air and missile defence systems



MALE (Medium Altitude Long Endurance) drones



Armoured Vehicles



Space Defence



Cyber Defence



Maritime

MEDIUM TO LONG-TERM GAPS



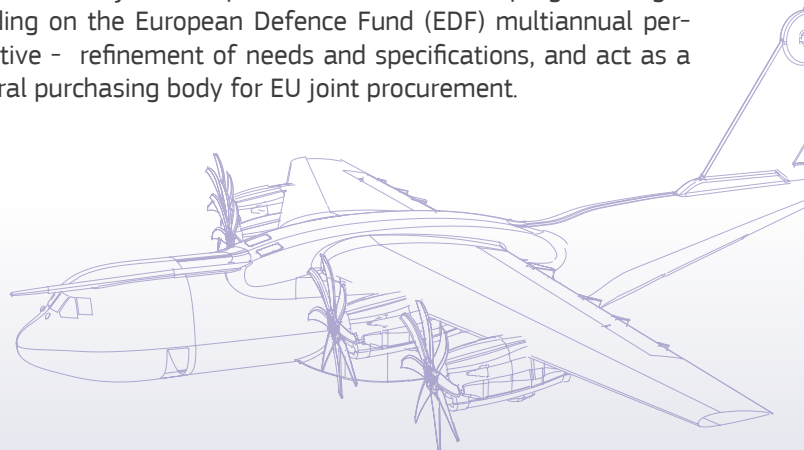
ADDRESSING THE GAPS

IMMEDIATE TO SHORT-TERM

- 1 Defence Joint Procurement Task Force:** the Commission will work with Member States to support the coordination of their very short term procurement needs to face the new security situation.
- 2 Short-term EU instrument to reinforce defence industrial capabilities through joint procurement:** the Commission will propose a dedicated short-term instrument, designed in a spirit of solidarity, to incentivise Member States who are willing to pursue joint procurement to fill the most urgent and critical gaps, especially those created by the response to the current aggression, in a collaborative way. The Commission is ready to invest €500 million over two years (2022-24) into this scheme. To this end, the Commission will propose to the co-legislators to engage in a fast-track adoption of a Regulation enabling the instrument and the related budget increase.

MEDIUM TO LONG-TERM

- 3 An EU framework for Defence Joint Procurement:** the Commission will propose in the third quarter of 2022 a **European Defence Investment Programme (EDIP)** regulation, aiming at establishing conditions for Member States to form **European Defence Capability Consortia (EDCCs)** that will jointly procure defence capabilities that are developed in a collaborative way within the EU. EDCCs will benefit from a VAT exemption as well as from possible associated Union financial intervention for the reinforcement of the European defence industrial base, in particular for projects which no single Member State could develop or procure alone.
- 4 An EU Joint Defence Strategic Programming and Procurement** involving Member States, the High Representative/Head of the European Defence Agency and Commission is envisaged. It would ensure joint comprehensive multiannual programming – building on the European Defence Fund (EDF) multiannual perspective – refinement of needs and specifications, and act as a central purchasing body for EU joint procurement.



REINFORCEMENT OF EUROPE DEFENCE INDUSTRIAL CAPACITY:



In-depth mapping of **EU industrial manufacturing** capabilities



Enabling defence industry access to **Critical Raw Materials (CRMs)** and other key components



Support to **defence specific skills**



The Commission will work on further measures to **support critical technologies and industrial capacities** by developing strategic projects



The Commission will consider possible amendments to the framework for dual-use research and innovation to improve **synergies between civil and defence** instruments

Sustain the R&D effort: the Commission will consider strengthening the EDF, within the overall review of priorities in the mid-term review of the MFF. In addition, Commission will speed up the establishment of the **CASSINI for defence**, announced in the Defence Package as part of the EU Defence Innovation Scheme. A **blending facility under InvestEU**, supporting innovation and targeting SMEs and Mid-Caps developing defence technologies, in cooperation with the EIF, will be part of it.

The EIB and its shareholders, the Member States, should be invited to assess whether, under present market and geopolitical circumstances, it should extend its support to defence-related industrial projects, by adapting, if necessary, its lending policy.